

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

**BAC2664 – AUDITING**

( All sections / Groups )

15<sup>th</sup> OCTOBER 2018

9.00 a.m. - 12.00 p.m.

( 3 Hours )

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### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 5 pages excluding cover page with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- a) According to Section 263(7) 'person' means a chartered accountant as defined under the Accountants Act 1967.

**Required:**

Explain the factors whereby a 'person' cannot be an approved company auditor.

(10 marks)

- b) Kamarul is planning to set up his own external audit firm and has approached you to get some information on the requirements of the Companies Act 2016.

**Required:**

Explain to Kamarul how he can apply and become approved company auditor in accordance to Section 263 of the Companies Act 2016.

(10 marks)

**(Total: 20 marks)**

**QUESTION 2**

- a) Internal control plays a vital role in an organisation.

**Required:**

Provide three approaches for auditors to understand the organisation's internal control.

(3 marks)

- b) In deciding which audit procedures to use the auditor can choose from eight broad categories of evidence which are called types of evidence. Every audit procedure obtains one or more types of audit evidence.

**Required:**

Identify and explain each of the eight types of audit evidence and give one example for each type of audit evidence.

(12 marks)

- c) When auditing the client's company, the external auditor should be familiar with the proper design and use of documents and records in order to access the internal control reliability. Assume you are an auditor and you are currently auditing Lappy Sdn. Bhd. You have identified several issues while performing the audit. Sarah the clerk who handles the client's files went for one-month unpaid leave while the

**Continued...**

customer invoices are not arranged in a file accordingly. It was a messy situation and you are unable to track the invoices.

When you requested for the invoices from the other colleagues they were unsure about it as Sarah was the only one who handles the documentation part. While auditing the customer payment documentation you also realise that resit was not issued immediately to customers who made payment. Resit were issued to customer long after payment is received. Another very obvious issue you notice was that most the internal documents were without signature or sign of approval by relevant personnel.

**Required:**

As an auditor, provide five suggestions to Lappy Sdn. Bhd. on improving the control over documents and record keeping.

(5 marks)

**(Total: 20 marks)**

**QUESTION 3**

a) Below is the transaction related audit objectives related to sales transactions:

- i. Recorded sales are for shipments actually made to non-fictitious customers.
- ii. Existing sales transactions are recorded.
- iii. Sales transactions are correctly classified.
- iv. Sales are recorded on the correct dates.

**Required:**

Using the format shown below, provide one internal control, one test of control and one substantive test of transaction for each of the transaction related audit objective above.

Transaction related audit objectives	Internal Control	Test of control	Substantive test of transaction
i) Recorded sales are for shipments actually made to non-fictitious customers	i)	i)	i)

(12 marks)

**Continued...**

b) Below are the management assertions applied to inventory:

- i. Existence or occurrence
- ii. Completeness
- iii. Valuation or allocation
- iv. Rights and obligations

**Required:**

Using the format shown below, list the general balance-related audit objectives and provide the specific balance-related audit objectives applied to inventory for each of the management assertion above.

Management assertions	General balance - related audit objectives	Specific balance-related audit objectives applied to inventory
i) Existence or occurrence	i)	i)

(8 marks)

(Total: 20 marks)

**QUESTION 4**

International Standard on Auditing (ISA) 700 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. This revised ISA deals with the auditor's responsibility to form an opinion on the financial statements as well as the form and content of the auditor's report issued as a result of an audit of financial statements. This ISA applies to an audit of a complete set of general purpose financial statements

**Required:**

a) Explain the three conditions requiring a departure from an unqualified opinion and give one example for each condition. (6 marks)

b) Define the following three types of audit opinion:

- i. Qualified opinion (2 marks)
- ii. Adverse opinion (2 marks)

Continued...

iii. Disclaimer of opinion

(2 marks)

- c) Distinguish between disclaimer and adverse opinion. Give one example for each of them.

(4 marks)

d)

#### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders, Megah Berhad

We have audited the accompanying Statement of Financial Position of Megah Berhad as at 31<sup>st</sup> December 2017 and the related statements of income, shareholders' equity and cash flows for the year ended and the related schedules listed in the accompanying index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The company had significant deficiencies in internal control, including the lack of detailed records and certain supporting data which were not available for our audit. Therefore, we were not able to obtain sufficient evidence in order to form an opinion on the accompanying financial statements including whether the inventory at 31<sup>st</sup> December 2016 (RM200,000) was stated at lower of cost or market, or whether the deferred subscription revenue (RM85,000) is an adequate estimate for the applicable liability, as discussed in Notes 3 and 18, respectively.

#### Required:

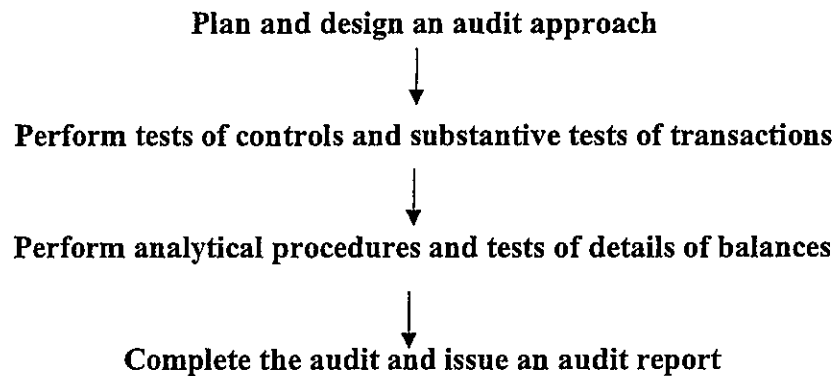
Write the auditor's opinion to accompany this portion of the audit report. (4 marks)

(Total: 20 marks)

#### QUESTION 5

- a) Audit objectives are met by auditors obtaining sufficient appropriate audit evidence to support all management assertions in the financial statements. An audit process has four specific phases:

Continued...



**Required:**

Explain in detail the summary of audit process for every phase as stated above.

(10 marks)

b) Inventory is often the most difficult and time consuming part of many audit engagements because inventory is generally a major item on the balance sheet and often the largest item making up the accounts included in working capital.

**Required:**

Explain the five parts of the audit of the inventory and warehousing cycle.

(10 marks)

(Total: 20 marks)

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